STATEMENT OF DALE E. HATHAWAY
UNDER SECRETARY OF AGRICULTURE FOR INTERNATIONAL
AFFAIRS AND COMMODITY PROGRAMS
before
HOUSE COMMITTEE ON SMALL BUSINESS
JUNE 11, 1979

Thank you Mr. Chairman. It is a pleasure to appear before your committee this morning to review the Department's export sales reporting system.

As you know, the reporting system developed as an outgrowth of the widespread uncertainty that plagued commodity markets in 1972 and 1973. Disruptions created by the unexpectedly rapid reduction of available supplies and increases in commodity prices resulted in the Congressional mandate for reporting by U.S. exporters. The purpose of the reporting system was to minimize market uncertainties and stabilize the market by providing accurate and timely information on the level of export contracting. Other goals were to assist American farmers in making better marketing decisions and provide Government a basis for developing more effective export policies and programs.

The reporting system has now been in effect for over five years. During this period, the Department has gained considerable operational experience and has made several changes to assure that it is producing timely information on the level of export contracting of U.S. agricultural commodities. Most significant, a daily reporting requirement was established for large export transactions to supplement the weekly reporting procedures authorized in the original legislation. One of the first acts of this Administration was to assure that summary information on these large sales was promptly released to the general public.

USDA 1322-79

Our experience with the reporting system has taught us several lessons. Most important, perhaps, is a recognition of exactly what the reporting system is and is not. It has proven to be an effective means of monitoring sales activity by U.S. exporters. The daily and weekly data provide the agricultural community and the Government with good snapshots of current contracting activity. These pictures of our cash export markets are useful, both during periods of abundance when such data are used as part of our market development activities and during periods of tight supplies when accurate information is essential to effective Government policies.

There are, however, some limitations -- things the reporting system does not do. For instance, since the system reports sales only after they have occurred, the information by itself does not forecast future sales. Also, because of the nature of our marketing system, export contracts are frequently amended or cancelled, resulting in variations in reported data from one week to the next. These changes, which occur most frequently during periods of active market trading as buyers and sellers reevaluate positions, sometimes confuse those not fully informed about marketing practices.

The reporting system is also limited in its coverage. At the present time, only U.S. exporters are subject to the mandatory reporting requirements. Because of problems associated with jurisdiction, firms located outside of the United States, including affiliates, foreign parents and subsidiaries of U.S. firms, do not have a reporting

responsibility, even though they trade in U.S. agricultural commodities. It is possible for these firms to cover their sales in the international resellers market or to hedge them on our commodity futures markets. Such transactions would not be reported until the foreign firm enters our cash market to purchase the commodity from a U.S. exporter. This situation often results in significant delays in reporting this information to the public.

Last August, in an effort to further strengthen the reporting system, Secretary Bergland established the Advisory Committee on Export Sales Reporting. This committee, which included experts from the major segments of the U.S. food and fiber system, including producers, merchandisers, processors, the university sector, and the consumer interest, was requested to review the present reporting system and develop recommendations for improvement.

I had the pleasure to serve as Chairman of this advisory committee, and can assure you that we went to extraordinary lengths to solicit views and recommendations from the public, the export trade, and the Government. Through a series of public hearings held in Washington and five other U.S. cities, the committee received testimony from more than 50 witnesses, including the Chairman of this Committee. These witnesses included producers, consumers, exporters, government officials, and representatives of trade associations and the news media. The statements presented were carefully reviewed by the advisory committee,

together with material provided by the General Accounting Office and USDA's Office of Audit.

In its February 27, 1979, report to Secretary Bergland, the advisory committee concluded that the present reporting system was functioning adequately, given the current statute, and the system or some modification of it should be continued. It was determined that sales by U.S. exporters were being promptly reported to USDA and that such reporting had not adversely affected the ability of the United States to compete with foreign suppliers.

The advisory committee spent considerable time analyzing the concept of reporting by foreign entities. There had previously been several bills introduced in the Congress, including one by Chairman Smith, to expand the reporting requirements, and much testimony had been offered during the public hearings on this subject. In addition, USDA's General Counsel submitted a legal opinion on potential sanctions. After carefully considering all of the evidence, the committee concluded that the extension of reporting requirements to foreign entities could potentially result in loss of export sales for the United States. The committee also concluded that foreign firms could find ways to circumvent such reporting requirements. Consequently, the committee did not recommend the extension of reporting requirements to foreign firms during periods of adequate U.S. and world supplies. However, the

committee did recommend that the Secretary be given discretionary authority to expand reporting requirements during periods of tight supplies, when more information is needed to carry out export policies and programs effectively.

The advisory committee further recommended that USDA continue to operate the export sales reporting system, but that it should make administrative changes to shorten the time involved in publishing the weekly export sales report. We are now taking steps to implement this recommendation. The committee also recommended that the current commodity coverage remain intact.

The advisory committee heard considerable testimony from the domestic segment of the hides and skins industry, primarily tanners, requesting the addition of hides to the export sales report. Tanners blamed current tight domestic supplies and high prices on increasing exports. However, hide exporters and cattlemen urged that hides not be added to the report. In the absence of solid background information on which to base a decision, the committee recommended that USDA study the structure of the hides and skins industry to determine whether these commodities should be included in the export sales reporting program. A broad study addressing structure, pricing, trade, and policies for hides, leather, and products is now underway.

A senior official of a major U.S. export firm, appearing before the committee during its public hearings in New York, suggested that the Government may wish to consider developing a standby procedure for the prior approval of export sales during periods of short supply. This official, although not recommending such action, suggested that a formalized standby procedure could benefit both the export trade and the Government by providing, in advance of a commodity shortage, the procedures that would be used in responding to a short supply situation. The advisory committee did not take a position on this concept. Nor has this Administration. However, the Congress may wish to consider it as part of its deliberations.

Finally, Mr. Chairman, the advisory committee recommended that USDA conduct a study of the relationship between the reporting of large export sales to USDA and activity on our commodity futures markets. We wanted to determine whether exporters under the present system were benefiting through the use of the commodity futures market between the time their sales were made and information with respect to such sales were included in summaries of export sales published by USDA.
In conducting this study, 20 representative time periods during the 1975-1978 period were selected. Data on 29 individual large wheat, corn, and soybean export sales reported during these periods were

obtained from the records of USDA's Office of the General Sales Manager. Information on exporters' cash and futures positions from 6 weeks before to 4 weeks after each sale were provided by the Commodity Futures Trading Commission. Futures prices were assembled for the same intervals from published sources. Our analysis of this data identified the following relationships:

Futures price increases and decreases were almost equally frequent during the periods that the selected large sales occurred, although price increases were slightly more common than decreases during the weeks that preceded the sales. Thus, on the average, the price impacts of the sales were fairly well anticipated by the trade. Exporters' net long positions in cash and futures combined at the beginning of the week when the sales occurred were frequently large enough to cover the sales, suggesting that the sales were often anticipated.

The futures market was used less than we expected in covering export sales during the week of the sale. More buying in the cash market than in the futures market was observed. Although exporters tended to hold long net futures positions over the time intervals studied, their positions declined about as frequently as they increased during the weeks sales

were made. Instead of hedging, they handled the sales mainly by taking a reduction in an existing position. A possible explanation for the small amount of hedging observed is that futures were purchased several weeks before the sales were reported. This time lag can arise because sales made by the foreign affiliates of U.S. exporters are not reported until they contract with the U.S. firm. Some evidence of pre-hedging, as well as hedging after the sale, was found. Also, if the futures purchases had been made over a period of weeks, they would have been difficult to detect.

By combining the data on price and exporters' positions, the capital gains and losses of exporters on both their futures positions and overall positions before and after large export sales were estimated. Although results varied greatly from case to case, exporters as a group apparently earned positive returns on their futures positions both before and after the sales were reported. However, due to one very large loss of a cash position, exporters as a group apparently lost money on their overall positions during these intervals.

In general, results from the study lend some support to the notion that exporters were able to benefit through the use of the commodity futures market between the time their sales were made and information with respect to such sales were included in summaries of export sales published by USDA.

However, because of the limitations of the data, the degree of approximation involved in estimating gains and losses and the large variations from case to case, it is difficult to draw definitive conclusions from the study. Of course, these results apply only to export sales that were reported to USDA and not to unreported sales by foreign firms.

The results of this study and the conclusions reached by the advisory committee indicate that there are no easy solutions to strengthening the reporting system. It is a very complex issue and one that reflects to some degree inherent characteristics of our marketing system. We must carefully balance the need for additional information against the increased risks of becoming less competitive in world export markets. On the other hand, as we learned in 1972-73, accurate and objective information, though always important, becomes crucial to effective public and private decision making in periods of tight supplies.

Therefore, consistent with the recommendations of the advisory committee, the administration is prepared to support legislation designed to provide the Secretary of Agriculture with discretionary authority to expand reporting requirements to cover foreign firms during periods of tight supply.

The recent strengthening of grain prices indicates a closer balance between supply and demand. Although supply-demand prospects appear in reasonably good balance, we are now in a situation where adverse weather conditions in a major producing area could lead to a tight supply situation in the next several years. It seems prudent to provide the discretionary authority recommended by the Secretary's advisory committee.

Criminal sanctions do not appear to be an effective means for enforcing reporting by foreign firms of U.S. origin sales due to the inability of obtaining jurisdiction. We favor a civil penalty. But care must be taken to avoid civil penalties which either cannot be effectively enforced or which would produce negative effects on the competitive position of the United States.

Thank you, Mr. Chairman. This concludes my statement. I will be happy to respond to any questions.

U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

OFFICIAL BUSINESS
Penalty for Private Use, $300

U.S. MAIL

POSTAGE & FEES PAID
United States Department of Agriculture
AGR 101